March 24, 2010

TO: Thomas R. Frieden, M.D., M.P.H.
   Director
   Centers for Disease Control and Prevention

FROM: /Daniel R. Levinson/
       Inspector General

SUBJECT: Payments by the Centers for Disease Control and Prevention to Vaccine Manufacturers and Suppliers (A-04-06-01042)

The attached final report provides the results of our audit of payments by the Centers for Disease Control and Prevention to vaccine manufacturers and suppliers. We conducted this audit at the request of the Senate Committee on Finance.


Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-04-06-01042 in all correspondence.

Attachment
The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

**Office of Audit Services**

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

**Office of Counsel to the Inspector General**

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG’s internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.
EXECUTIVE SUMMARY

BACKGROUND

The Centers for Disease Control and Prevention (CDC) purchases childhood and adult vaccines through contracts with pharmaceutical manufacturers and suppliers (vendors). The vendors distribute the vaccines to such recipients as States, territories, and major metropolitan areas and submit dated invoices to CDC.

The Prompt Payment Act of 1982 (P.L. No. 97-177) and implementing regulations require Federal agencies to pay vendor invoices in a timely manner and to add interest penalties if payments are delayed. In the absence of other contractual provisions, an agency generally must pay a proper invoice within 30 days of the later of the receipt of the invoice or the receipt of the supplies. If an invoice is not paid timely, the agency incurs interest from the day after the payment was due until the payment is made.

During our audit period (April 1, 2005, through August 31, 2006), CDC paid 179,129 invoices from five vaccine vendors. Three vendors submitted electronic invoices, and two submitted paper invoices. CDC enters both types of invoices in the Unified Financial Management System (UFMS) and uses the UFMS to process payments to the vendors. The UFMS establishes the start of the 30-day payment period by setting a “terms date,” which is the later of the invoice date, invoice receipt date, or vaccine receipt date. The terms date is subject to manual adjustment.

We performed this audit at the request of the Senate Committee on Finance.

OBJECTIVE

Our objective was to determine the extent to which CDC paid invoices for vaccines in a timely manner and calculated and paid required interest on late payments.

SUMMARY OF FINDINGS

CDC paid the large majority of vaccine invoices in a timely manner and generally calculated and paid required interest on late payments. Of the 179,129 invoices that CDC paid from April 2005 through August 2006, 172,566 (more than 96 percent) were paid within the required period. For the 6,563 remaining invoices, which were not paid within the required period, CDC paid appropriate interest or did not owe interest on 4,895 invoices but had not paid interest totaling $1,081,224 on 1,668 invoices as of August 31, 2006. The unpaid interest occurred because CDC had entered incorrect paper invoice receipt dates in the UFMS or had not entered electronic invoices in the UFMS on the day of their receipt.

In addition, during our review, we determined that CDC had paid 46 invoices twice, resulting in duplicate payments totaling $2,044,220. In these cases, CDC had bypassed system edits to generate electronic payments without first determining whether the invoices had been paid.
As a result of the unpaid interest and duplicate payments, CDC owed one vendor $1,650,246 and four vendors owed CDC $687,250.

RECOMMENDATIONS

We recommend that CDC:

- pay $1,650,246 in interest due one vendor;
- recover $687,250 in duplicate payments (net of interest due) from four vendors; and
- consider reviewing all replacement paper invoices paid after August 31, 2006, to identify any unpaid interest or duplicate payments.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In comments on our draft report, CDC disagreed with our findings and recommendations. CDC acknowledged that interest was sometimes not paid when due; however, CDC disagreed that it owed $1,650,246 in interest. Although CDC acknowledged that some of the invoices cited in the draft report were paid twice, it stated that it had identified and was in the process of collecting at least $1,989,257 of the duplicate payments before the start of our audit. CDC also said that implementing our third recommendation would not be an efficient use of resources. The complete text of CDC’s comments is included as Appendix B.

In response to CDC’s comments, we reviewed additional documentation and found that CDC had recovered duplicate payments on 66 invoices totaling $1,161,225. We reduced the number and dollar value of duplicate payments reported in this final report accordingly. We maintain that our findings and recommendations, as revised, are valid.
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INTRODUCTION

BACKGROUND

Centers for Disease Control and Prevention Vaccine Purchases

The mission of the Centers for Disease Control and Prevention (CDC) is to promote health and quality of life by preventing and controlling disease, injury, and disability. To help accomplish this mission, CDC purchases vaccines through contracts with pharmaceutical manufacturers and suppliers (vendors). The vendors then distribute the vaccines to such recipients as States, territories, and major metropolitan areas.

CDC purchases more than half of the childhood vaccines sold in America, as well as large quantities of adult vaccines. These purchases support the Vaccines for Children (VFC) program established by the Omnibus Budget Reconciliation Act of 1993 (P.L. No. 103-66), other grants for preventive health services authorized under section 317 of the Public Health Service Act (P.L. No. 87-868), and the Strategic National Stockpile. During fiscal year 2006, vaccine purchases under the VFC and section 317 programs accounted for more than $2.2 billion, almost 26 percent of CDC’s total budget. CDC’s proposed budget for fiscal year 2009 included nearly $3 billion for these purchases.

Prompt Payment Act

The Prompt Payment Act of 1982 (P.L. No. 97-177) requires Federal agencies to pay proper vendor invoices in a timely manner and to add interest penalties if payments are delayed. Implementing regulations (5 CFR pt. 1315 and 48 CFR ch.1, subpart 32.9) provide that in the absence of other contractual provisions, an agency generally must pay a proper invoice within 30 days of the later of the receipt of the invoice or the receipt of the supplies. If an invoice is not paid in a timely manner, the agency incurs interest from the day after the payment was due until the payment is made. Assuming that certain conditions are met, including receipt of a proper invoice, the agency is required to compute and pay interest to vendors automatically; vendors are not required to request interest. Interest of less than $1 need not be paid.

Invoice Processing

During our audit period (April 1, 2005, through August 31, 2006), CDC contracted with five vaccine vendors. To receive payment for the vaccines that they supplied, the vendors submitted dated invoices to CDC. Three vendors submitted electronic invoices, and two submitted paper invoices.

- CDC downloads electronic invoices daily from its electronic mailbox. CDC then matches the invoices to the corresponding vaccine orders and enters the invoices in the Unified Financial Management System (UFMS), which CDC uses to process payments.

- CDC date-stamps paper invoices “received” when they arrive at CDC’s Financial Management Office (FMO) and then manually enters the invoices in the UFMS.
For both electronic and paper invoices, the UFMS establishes the start of the 30-day payment period by setting a “terms date,” which is the later of the invoice date, the invoice receipt date, or the vaccine receipt date that the vaccine recipient enters in the NIPVAC system. The terms date is subject to manual adjustment.

**Congressional Request**

We performed this audit at the request of the Senate Committee on Finance.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

**Objective**

Our objective was to determine the extent to which CDC paid invoices for vaccines in a timely manner and calculated and paid required interest on late payments.

**Scope**

Our audit covered the period April 1, 2005, through August 31, 2006. During that period, CDC paid 179,129 invoices totaling approximately $2.4 billion from five vendors of vaccines needed for the VFC and section 317 programs and for the Strategic National Stockpile.

We limited our review of CDC’s internal controls to those applicable to accounts payable systems. We performed fieldwork at CDC in Atlanta, Georgia.

**Methodology**

To accomplish our objective, we:

- reviewed the Prompt Payment Act and implementing regulations;
- reviewed CDC’s contracts with the five vendors to identify the payment terms;
- interviewed FMO officials and staff to gain an understanding of the systems and processes for paying vaccine vendors;
- analyzed the technical specifications of the UFMS accounts payable module and reviewed flowcharts and other records on the flow of vaccine-related data from feeder systems to the UFMS;
- reviewed the 179,129 invoices from the five vendors and identified invoices that were paid late and that had interest due vendors;

---

1 CDC uses the NIPVAC system to track vaccine orders, funding information, vaccine receipt/acceptance dates, and accounting data. Information from the NIPVAC system feeds into the UFMS.
analyzed data from the UFMS, as well as from archived electronic invoice files and the NIPVAC system, to determine why invoices were paid late;

- calculated interest due in accordance with the requirements of the Prompt Payment Act; and

- reviewed the invoices for potentially duplicate payments to determine whether they were, in fact, duplicates.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

CDC paid the large majority of vaccine invoices in a timely manner and generally calculated and paid required interest on late payments. Of the 179,129 invoices that CDC paid from April 2005 through August 2006, 172,566 (more than 96 percent) were paid within the required period. For the 6,563 remaining invoices, which were not paid within the required period, CDC paid appropriate interest or did not owe interest on 4,895 invoices but had not paid interest totaling $1,081,224 on 1,668 invoices as of August 31, 2006. The unpaid interest occurred because CDC had entered incorrect paper invoice receipt dates in the UFMS or had not entered electronic invoices in the UFMS on the day of their receipt.

In addition, during our review, we found that CDC had paid 46 invoices twice, resulting in duplicate payments totaling $2,044,220. In these cases, CDC had bypassed system edits to generate electronic payments without first determining whether the invoices had been paid.

As a result of the unpaid interest and duplicate payments, CDC owed one vendor $1,650,246 and four vendors owed CDC $687,250. Appendix A presents details on these amounts by vendor.

PROMPT PAYMENT REQUIREMENTS

Implementing regulations (5 CFR pt. 1315 and 48 CFR ch.1, subpart 32.9) provide that the period available to an agency to make timely payment without incurring an interest penalty generally starts on the later of the date that the agency receives a proper invoice from a vendor or the date that the recipient receives the supplies. In the absence of other contractual provisions, the payment due date is generally 30 days after the start of the payment period. If an agency does not make a payment by the due date, the agency must calculate interest from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date. For up to 1 year, interest remaining unpaid at the end of any 30-day period will be added to the principal and subsequent interest will accrue on that amount until paid. Interest of less than $1 need not be paid.
LATE PAYMENTS

From April 2005 through August 2006, CDC paid 6,563 invoices late. For 4,526 of these invoices, which were paid an average of 17 days late, CDC paid appropriate interest totaling $611,059. CDC did not owe interest on 369 other invoices, which were paid an average of 12 days late. Because interest was paid properly or was not due on these invoices, we did not determine why the invoices were paid late.

CDC paid the remaining 1,668 invoices an average of 30 days late but did not pay interest as required. As of August 31, 2006, CDC owed $1,081,224 in interest on these late payments. CDC did not pay the required interest because the UFMS contained incorrect terms dates.

- For 1,397 paper invoices with $982,532 in unpaid interest, CDC did not enter the correct invoice receipt dates in the UFMS.
- For 271 electronic invoices with $98,692 in unpaid interest, CDC did not enter the invoices in the UFMS on the day of their receipt.

Paper Invoices

CDC generally date-stamped paper invoices “received” within 7 days following the invoice dates; however, some paper invoices were date-stamped much later, resulting in incorrect terms dates. Although some contracts directed vendors to send invoices to FMO, other contracts directed vendors to send invoices to contracting officers or were silent regarding where to send paper invoices. However, FMO incorrectly considered invoices properly received only when they reached FMO and were date-stamped.

For example, three vaccine orders totaling $100 million for the Strategic National Stockpile directed the vendor to submit invoices to the contracting officer. The corresponding invoices were dated May 23, 2006, and were date-stamped “received” June 12, 2006, by the contracting officer. Upon receiving a facsimile on July 21, 2006, from the contracting officer explaining that the invoices had not been paid, FMO manually changed the June 12, 2006, terms date that the UFMS had established to July 21, 2006. FMO then paid the invoices in early August 2006. As a result, CDC paid the three invoices 42 days late and did not pay $601,506 in interest due the vendor.

Electronic Invoices

CDC sometimes did not transmit electronic invoices from its electronic mailbox to the UFMS on the day of their receipt. A CDC manager erroneously directed that these invoices were not to be considered proper invoices and said that she had instructed vendors to submit replacement paper invoices in these cases. Upon receiving the paper invoices, CDC employees entered the invoices in the UFMS as if they were new invoices, thus incorrectly adjusting the terms dates originally established by the UFMS. To determine the actual invoice receipt dates, we used electronic copies found in CDC’s archived files. We determined that the archived electronic invoices contained all of the elements of proper invoices.
DUPLICATE PAYMENTS

CDC made duplicate payments totaling $2,044,220 on 46 invoices from four vendors during the audit period. We found no evidence that these vendors had notified CDC of the duplicate payments.

The duplicate payments occurred when vendors that had not received payment for their initial invoices submitted replacement paper invoices. Some CDC employees bypassed system edits to generate electronic payment of the replacement invoices without first determining whether the invoices had already been paid. One CDC employee was involved with approximately $2 million of the $2,044,220 in duplicate payments. CDC has since reassigned this employee to a different area of responsibility.

RECOMMENDATIONS

We recommend that CDC:

- pay $1,650,246 in interest due one vendor;
- recover $687,250 in duplicate payments (net of interest due) from four vendors; and
- consider reviewing all replacement paper invoices paid after August 31, 2006, to identify any unpaid interest or duplicate payments.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In comments on our draft report, CDC disagreed with our findings and recommendations. A summary of CDC’s comments and our response to those comments follow. The complete text of CDC’s comments is included as Appendix B.

Late Payments

CDC acknowledged that it sometimes did not pay interest when due. Although CDC disagreed that it owed $1,650,246 in interest, CDC did not indicate what amount it owed.

CDC did not provide additional information that would cause us to change our finding or recommendations related to interest due on late payments.

Duplicate Payments

Although CDC acknowledged that some of the invoices cited in our draft report were paid twice, it stated that it had identified and was in the process of collecting at least $1,989,257 of the duplicate payments before the start of our audit. According to CDC, the duplicate payments occurred because the vaccine contracting and ordering systems changed the ordering process during 2005, thus compromising a system control designed to prevent duplicate invoices. CDC
described controls that it had recently implemented to identify and prevent future duplicate payments. CDC also stated that some of the duplicate payments that we cited were actually for duplicate shipments that CDC had accepted, thus making the “duplicate” payments appropriate.

Our draft report stated that CDC had paid 112 duplicate payments totaling $3,205,445 during the audit period. In response to CDC’s comments, we reviewed additional documentation and found that CDC had recovered duplicate payments on 66 invoices totaling $1,161,225. We reduced the number and dollar value of duplicate payments reported in this final report accordingly. With respect to duplicate shipments, during our audit, we verified that the duplicate payments identified in our report were not the result of duplicate shipments; therefore, CDC’s statement that some duplicate payments were appropriate is not accurate.

**Further Review of Replacement Invoices**

CDC stated that a review of all replacement invoices paid after August 31, 2006, would not be an efficient use of resources.

CDC did not provide a cost-benefit analysis to support its assertion. Accordingly, we maintain that our third recommendation is valid.
APPENDIXES
## APPENDIX A: UNPAID INTEREST AND DUPLICATE PAYMENTS BY VENDOR

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Interest Owed to Vendor (A)</th>
<th>Duplicate Payments Owed by Vendor as of December 9, 2009¹ (B)</th>
<th>Net Amount Due Vendor (A minus B)</th>
<th>Net Amount Owed by Vendor (B minus A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendor A</td>
<td>$632,412</td>
<td>$10,420</td>
<td>$621,992</td>
<td></td>
</tr>
<tr>
<td>Vendor B</td>
<td>2,109</td>
<td>0</td>
<td>2,109</td>
<td></td>
</tr>
<tr>
<td>Vendor C</td>
<td>71,093</td>
<td>45,588</td>
<td>25,505</td>
<td></td>
</tr>
<tr>
<td>Vendor D</td>
<td>113,021</td>
<td>1,763,267</td>
<td></td>
<td>$1,650,246</td>
</tr>
<tr>
<td>Vendor E</td>
<td>262,589</td>
<td>224,945</td>
<td>37,644</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,081,224</strong></td>
<td><strong>$2,044,220</strong></td>
<td><strong>$687,250</strong></td>
<td><strong>$1,650,246</strong></td>
</tr>
</tbody>
</table>

¹These amounts are based on additional documentation as of December 9, 2009, which we reviewed after receiving Centers for Disease Control and Prevention comments on our draft report.
TO:  Daniel R. Levinson  
Inspector General  
FROM:  Director, Centers for Disease Control and Prevention  
Administrator, Agency for Toxic Substances and Disease Registry  
SUBJECT:  Payments by the Centers for Disease Control and Prevention to Vaccine Manufacturers and Suppliers (A-04-06-01042)  

The Centers for Disease Control and Prevention (CDC) appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) draft report, “Payments by the Centers for Disease Control and Prevention to Vaccine Manufacturers and Suppliers (A-04-06-01042).”  

The objective of the audit was to determine the extent to which CDC paid invoices for vaccines in a timely manner and calculated and paid required interest on late payments. The audit concluded that CDC paid the majority of vaccine invoices in a timely manner and generally calculated and paid required interest on late payments, but did not pay interest due totaling $1,081,224 on 1,668 invoices. The report states that the unpaid interest occurred because CDC had entered incorrect paper invoice receipt dates in the UFMS, or had not entered electronic invoices in the UFMS on the day of their receipt. In addition, the OIG found that CDC had paid 112 invoices twice, resulting in duplicate payments totaling $3,205,445.  

OIG Recommendation and CDC Response  

The OIG recommended that CDC take the following actions:  
- Recover $2,748,322 in duplicate payments (net of interest due) from three vendors;  
- Pay $624,101 in interest due two vendors; and  
- Consider reviewing all replacement paper invoices paid after August 31, 2006, to identify any unpaid interest or duplicate payments.  

CDC does not agree with the findings and recommendations. While CDC acknowledges that interest was sometimes not paid when due, primarily due to system errors, we do not agree with the conclusions reached by the OIG related to either the amount of interest due to vaccine vendors, the reasons any interest due was not paid, or their detection of duplicate payments. Accordingly, we cannot agree to implement the recommendations related to recovering or paying funds due from or to CDC vaccine vendors. Also, we believe that a review of all replacement paper invoices after August 31, 2006, would not be an efficient use of CDC resources. Many of
the errors noted in this report occurred shortly after the implementation of UFMS when system
users and programmers were still in a learning phase, and that experience and additional
systemic and process controls have mitigated these types of errors from occurring as UFMS use
stabilized.

We reviewed the detailed supporting documentation provided by the OIG and randomly selected
37 invoices from the 2006 spreadsheet to validate the results provided by the OIG. Based on our
analysis of these invoices, we do not agree with the conclusions and calculations provided by the
OIG.

Although the OIG recognized in the draft report's background paragraph, entitled "Prompt
Payment Act," that the agency, "must pay a proper invoice within 30 days of the receipt of the
invoice or the receipt of the supplies," it appears that the calculations performed by the OIG did
not consider either the date a proper invoice was received at the designated billing location, or
the date reflected in CDC systems as the vaccine receipt date. The calculations provided by the
OIG appear to be based solely on the invoice date, which is contrary to the provisions of the
Prompt Payment Act. This would affect calculations related to at least 525 of the approximately
1,250 invoices showing interest due by the OIG on the 2006 spreadsheet, and reduce the interest
owed on these invoices by at least $352,390.

The OIG did not consider the dates the invoices were received at the designated billing office
when computing the payment due dates. It appears that the OIG considered a mailing time of
seven days from the invoice date as reasonable, and anything outside of the seven day period as
unreasonable. CDC strongly disagrees with this methodology. The Prompt Payment Act
specifies that, in the absence of a date stamp, the invoice date should be used; however, the
invoices examined by the OIG contained a date stamped on the invoice at the time the invoice
was received at the designated billing location. We are not aware of any substantive audit work
performed by the OIG that would demonstrate evidence that CDC's invoice receiving processes
were unreliable, nor are we aware of any provisions in the Prompt Payment Act that define what
a reasonable mailing period is. Consequently, we do not agree that any of the 138 invoices
categorized by the OIG as, "late date stamp," with associated interest due of $14,161, were
actually late.

Additionally, several of the invoices categorized by the OIG as, "other evidence of prior receipt,
were considered late because they were initially received by CDC's procurement office.
Although the OIG spreadsheets reflect that the contracts directed the invoices to be submitted to
the procurement office, a contract modification, dated June 3, 2005, standardized invoicing
procedures and directed all contractors to submit all invoices to the finance office as the official
invoice receipt point for Prompt Payment purposes. Also, some of the invoices in this category,
albeit originally received at the designated billing office earlier than the date used to compute the
payment due date, did not contain all required information and, therefore, were not
considered proper invoices until resubmitted with the required information. Therefore, we also
do not agree with the OIG’s conclusions related to at least 9 of the 26 invoices in this category and the related $15,060 in interest.

The OIG also did not consider the vaccine receipt dates when computing payment due dates, although the receipt dates are reflected in CDC documents and the spreadsheets used by the OIG. We found that receiving data was available, but not used for over 600 of the approximately 1,250 invoices that the OIG states were incorrectly paid during FY06. For at least 375 of these invoices, using the receiving dates would result in no interest at all or interest reductions of at least $323,169. For instance, the interest due for the three invoices the OIG cited as examples in the draft report was calculated using the invoice date, although the invoice documentation provided to the OIG included an invoice receipt date annotated by the contracting officer and a product receiving and acceptance date annotated by the project officer, both later than the invoice date. As a result, the interest due on these three invoices would be $298,208.14 less than the amount cited by the OIG. Additionally, these invoices were associated with a contract written by another OPDIV, but citing CDC funds for payment, which is very unusual. We do not believe this example is representative of the problems encountered by CDC that resulted in late payments, and does not provide a fair picture of the audit results.

As a result of our cursory review of the data provided by the OIG, we cannot agree that the conclusions reached by the OIG are valid and supportable, and cannot make interest payments recommended by the OIG. In our opinion, payment of these amounts would be erroneous and improper payment.

Due to time constraints, we did not perform similar detailed analysis of the 2005 file. However, we did randomly review four of the invoices included on the OIG spreadsheet classified as late, with interest due. Our review showed that, for three of the invoices, the interest due to the vendor was paid with the original invoice payment. Accordingly, payment of these amounts as recommended by the OIG would constitute an improper duplicate payment.

We also do not agree with the OIG’s assessment that the cause of the incorrect late payments was that “CDC did not pay the required interest because the UFMS contained incorrect terms dates.” In our opinion, the OIG did not conduct sufficient causative research to ascertain the reasons why the invoices were incorrectly paid. The payment dates for many of the invoices cited as incorrect by the OIG were not driven by the terms date, so this conclusion is not properly supported. In our opinion, many of the errors that were made were related to the learning curve associated with the implementation of UFMS, a very complex and interrelated system.

DUPLICATE INVOICES

CDC also does not agree with the conclusions of the OIG regarding duplicate payments made by CDC to vaccine vendors. While CDC agrees that some of the invoices cited in the audit report were paid twice, CDC had identified the duplicate payments prior to the OIG’s field work in this area began. The duplicate payments occurred because the vaccine contracting and ordering
systems changed the ordering process during 2005, which compromised one of the systemic controls contained in the finance system to prevent duplicate invoices. The finance office alerted their payment employees and implemented manual compensating controls in January 2006 (several months prior to the audit start), and at least $1,989,257 of the duplicates included in the OIG’s report were in the process of being collected at the time the audit started. In September, 2006, within a month of the beginning of the audit work, CDC had developed a report to aid managers in identifying potential duplicate payments, and, shortly thereafter, CDC developed compensating systemic controls to prevent the duplicate payments. Additionally, some of the duplicate billings cited by the OIG were actually for duplicate shipments that were accepted by CDC, making the “duplicate” payment appropriate.

We appreciate your consideration of the comments contained in this memo as you develop the final report. We are happy to discuss any of the comments with you. Please direct any questions regarding these comments to Ms. Barbara Harris by telephone at (404) 498-1433 or by e-mail at bwh@cdc.gov.

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